

Trial Examination 2022

VCE Accounting Units 3&4

Written Examination

Question Booklet

Reading time: 15 minutes

Writing time: 2 hours

Student's Name: _____

Teacher's Name: _____

Structure of booklet

<i>Number of questions</i>	<i>Number of questions to be answered</i>	<i>Number of marks</i>
10	10	100

Students are permitted to bring into the examination room: pens, pencils, highlighters, erasers, sharpeners, rulers and one scientific calculator.

Students are NOT permitted to bring into the examination room: blank sheets of paper and/or correction fluid/tape.

Materials supplied

Question booklet of 11 pages

Answer booklet of 16 pages

Instructions

Write your **name** and your **teacher's name** in the space provided above and on the front cover of the answer booklet.

Answer all questions in the answer booklet.

All written responses must be in English.

At the end of the examination

You may keep this question booklet.

Students are NOT permitted to bring mobile phones and/or any other unauthorised electronic devices into the examination room.

Students are advised that this is a trial examination only and cannot in any way guarantee the content or the format of the 2022 VCE Accounting Units 3&4 Written Examination.

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Instructions

Answer **all** questions in the answer booklet provided.

Question 1 (15 marks)

Planting Greens reports annually on 30 June. The accountant has provided you with the following Balance Sheet (extract) as at 30 June 2019.

Planting Greens

Balance Sheet (extract) as at 30 June 2019

Non-current Assets	\$	\$
Vehicle	24 000	
Less Accumulated Depreciation of Vehicle	600	23 400

On 30 June 2022, the business's bank statement showed an electronic transfer for a loan of \$40 080 from TGW Bank. On 1 July 2022, Planting Greens traded in the old vehicle for a new vehicle. The cost of the new vehicle was \$42 000 (excl. GST). Planting Greens also paid a 12-month service agreement of \$880 (incl. GST) for the new vehicle. The trade-in allowance was \$7 000 for the old vehicle and the business used the loan from TGW Bank to pay the remaining amount owed to the vehicle dealership.

Additional information

- The old vehicle was purchased on 1 May 2019.
 - The vehicle is depreciated at a rate of 15% using the straight-line method of depreciation.
 - From 1 July 2022, the business will make loan repayments of \$1 200 per month to repay the loan from TGW Bank.
- a.** The owner believes the straight-line method of depreciation should be used because it is the most appropriate method of depreciation.
Explain why the owner is incorrect. In your answer, describe a more appropriate method of depreciating the vehicle. 3 marks
- b.** Explain the effect of the receipt of the loan from TGW Bank on 30 June 2022 on the accounting reports. 3 marks
- c.** Calculate the carrying value of the old vehicle as at 30 June 2022. 3 marks
- d.** Complete the following General Ledger accounts to record the disposal of the old vehicle and the purchase of the new vehicle on 1 July 2022. 6 marks
- Disposal of Vehicle
 - Vehicle

Question 2 (18 marks)

Blue Surfboards reports monthly. All inventory is bought and sold on credit. The credit terms provided to customers are 3/7, n/25. The credit term from suppliers is n/25.

The accountant has provided you with the following information.

Financial indicator	February 2022	March 2022
Accounts Receivable Turnover	27 days	23 days
Accounts Payable Turnover	24 days	29 days

Additional information

- On 1 January 2022, the business's rent expense increased by 10%. To cover this increase, Blue Surfboards began purchasing inventory from a cheaper supplier in March.
 - On 16 March 2022, the customer Polished Surf was written off as unrecoverable. The customer owed \$2 200 at the time (Memo 42).
 - On 23 March 2022, the customer Rift Surfing notified Blue Surfboards that it would only be able to repay 75% of the total amount owing. Blue Surfboards received \$3 300 from the customer (Rec. 57).
 - On 28 February 2022, the closing balance for Allowance for Doubtful Debts was \$1 700.
 - The accountant expects the closing balance for Allowance for Doubtful Debts on 31 March 2022 to be 3% of net credit sales.
 - Sales for March 2022 were \$43 000.
 - Sales Returns for March 2022 were \$5 700, compared to \$200 for February 2022 and \$170 for January 2022.
- a.** Explain **one** reason why the trend in the Accounts Receivable Turnover may not be an indication of effective management of credit customers. 3 marks
- b.** Prepare the General Journal entries required on:
- 23 March 2022
 - 31 March 2022.
- Narrations are **not** required. 6 marks
- c.** Suggest **one** reason for the increase in Sales Returns and explain why the owner should be concerned about this trend. 3 marks
- d.** Describe the trend of the Accounts Payable Turnover and evaluate its impact on the Cash Flow Cover of Blue Surfboards. 4 marks
- e.** Explain **one** ethical issue that the owner of Blue Surfboards should consider when making the decision to sell inventory on credit. 2 marks

Question 3 (9 marks)

Café Cups sells sustainable coffee cups to cafés. The business uses a 100% mark-up and reports every six months.

The accountant has provided you with the following estimates for the six months ending 30 June 2022:

- Budgeted Cash Flow Statement – Net Cash Flows from Operating Activities, \$5 200 surplus
- Budgeted Income Statement – Net Profit, \$3 100.

The following Income Statement Variance Report (extract) for the six months ending 30 June 2022 has been provided.

Café Cups

Income Statement Variance Report (extract) for six months ending 30 June 2022

	Budgeted (\$)	Actual (\$)	Variance (\$)	Favourable/ unfavourable
Revenue				
Cash Sales	17 000		5 000	U
Credit Sales	24 000	21 000		
Less Sales Returns	450	800		
Less Cost of Goods Sold				
Cost of Sales	20 275			
Customs Duty	1 000	700		
Gross Profit				
Less Inventory Loss	0		30	U
Less Inventory write-down	0		70	U
Adjusted Gross Profit				

- Explain why the estimated Net Cash Flows from Operating Activities is different to the estimated Net Profit for the six months ending 30 June 2022. 2 marks
- Complete the Income Statement Variance Report (extract) for the six months ending 30 June 2022. 3 marks
- Explain **one** reason why the business should also prepare a variance report for Cash Flow Statements. 2 marks
- Referring to **one** example from the Income Statement Variance Report (extract), discuss a strategy that the owner could adopt to improve the Net Profit. 2 marks

Question 4 (14 marks)

Exclusive Bags reports monthly. As at 31 October 2022, the closing balance in the GST Clearing General Ledger Account is \$980 cr. and the closing balance in the Accounts Payable General Ledger Account is \$3 300. The business uses a 100% mark-up on inventory.

On 31 October 2022, the accountant provided you with the following information.

- Rent \$1 430 (incl. GST) was incorrectly recorded as Advertising (Memo 37).
 - Wages owed at 30 September 2022 were \$300, wages paid on 31 October 2022 were \$1 700, and wages owing as at 31 October 2022 were \$500 (Memo 38).
 - On 31 October 2022, a customer paid a \$420 deposit for three deluxe bags (Rec. 12). These bags are expected to be delivered on 17 November.
 - On 31 October 2022, the owner decided to decrease the selling price of 15 deluxe bags from \$2 000 (plus GST) to \$800 (plus GST). A keyring (cost \$50 plus GST) is included with every deluxe bag sold (Memo 39).
 - On 31 October 2022, the owner contributed a vehicle to the business. At the time, there was a loan of \$15 000 from Red Cars Finance still outstanding. This loan will be taken over by Exclusive Bags. Loan repayments are \$250 per month. The vehicle was originally purchased for \$32 000 and its current value is \$24 000 (Memo 40).
- a.** Prepare the General Journal entries required to record the information above.
Narrations are **not** required. 9 marks
- b.** Prepare the Current Liabilities extract of the classified Balance Sheet for the month ending 31 October 2022. 4 marks
- c.** Suggest **one** use of the Balance Sheet. 1 mark

Question 5 (5 marks)

Tea Leaves reports quarterly on 31 March, 30 June, 30 September and 31 December. The accountant has provided you with the following information.

Financial indicator	30 June 2022	30 September 2022
Asset Turnover	3.1 times per period	3.6 times per period
Debt Ratio	43%	57%
Net Profit Margin	6%	4.7%
Return on Assets	5.7%	4.2%

- a.** Discuss the financial performance of Tea Leaves using the financial indicators shown in the table above. 4 marks
- b.** Identify **one** example of a non-financial indicator that could be used to measure the performance of Tea Leaves for the quarter ending 30 September 2022. 1 mark

Question 6 (9 marks)

Wick Candles is a business that sells candles and homewares. The business uses an 80% mark-up and reports monthly.

On 1 November 2022, the business purchased the following items from an overseas supplier.


	Quantity	Cost	Total (excl. GST)	GST	Total (incl. GST)
Rose candles	200	\$20	\$4 000	\$400	\$4 400
Green tea candles	200	\$25	\$5 000	\$500	\$5 500
Wick Candles logo	400	\$5	\$2 000	\$200	\$2 200
Import Duties			\$400	\$40	\$440
Total invoiced amount			\$11 400	\$1 140	\$12 540

Additional information

- The logo will be attached to each candle in Australia before being ready for sale.
 - During the month ended 30 November 2022, 30 rose candles and 20 green tea candles were sold.
 - A physical stocktake on 30 November 2022 showed an Inventory Gain of \$60.
 - Expenses for the month ended 30 November 2022 were:
 - Rent: \$750 (plus GST)
 - Wages: \$350.
- a.** Explain how treating the logo as either a product cost or a period cost will affect the Net Profit of Wick Candles for the month ending 30 November 2022. 4 marks
- b.** Prepare the classified Income Statement for Wick Candles for the month ending 30 November 2022. 5 marks

Question 7 (6 marks)

Sheet Music reports monthly. On 31 May 2022, the accountant found the following document. This information has not been recorded.

	YMT BANK CONFIRMATION OF PAYMENT
Transfer to:	BSB 011 101
Account Number:	12 554 111
Date, Time:	01/05/22, 09:17
Total:	\$16 500
Reference:	Secure Insure – Annual Rent Expense

- a. Complete the Prepaid Insurance General Ledger Account for the month ending 31 May 2022. 3 marks
- b. The total debit entries equal the total credit entries in the pre-adjusted Trial Balance for the month ending 31 May 2022.
Explain why it is necessary to prepare an adjusted Trial Balance. 3 marks

Question 8 (12 marks)

Ready Office Supplies uses a 100% mark-up and reports monthly. On 30 September 2022, the GST Clearing balance was \$250 cr.

The following transactions were recorded in the GST Clearing Ledger General Account for the month ending 31 October 2022.

Date 2022	Transaction	Amount of GST (\$)
4/10	Cash purchase of inventory	300
7/10	Credit sale of inventory	280
15/10	GST Settlement	250
16/10	Cash sale of inventory	80
19/10	Credit purchase of inventory	700
22/10	Cash sale of inventory	300
24/10	Cash payment of rent expense	90
28/10	Credit sale of inventory	120

Additional information

- The business buys and sells inventory using cash and on credit.
- There were no cash purchases of non-current assets during the month ending 31 October 2022.
- The expenses for the month ending 31 October 2022 were:
 - Wages: \$320
 - Rent: \$900 (plus GST)
 - Inventory write-down: \$40.

The accountant has provided you with the following estimates for the month ending 30 November 2022.

- Total sales revenue is estimated to increase by 20%.
- Total purchases of inventory are estimated to increase by 25%.
- Expenses incurred in October 2022 are estimated to remain unchanged in November 2022.
- Discount expense is estimated to be 5% of the total credit sales (plus GST) forecasted for November 2022.
- Drawings are estimated to be \$700 (cash) and \$150 (inventory).
- The closing balance of Accounts Receivable General Ledger Account is estimated to be \$2 300.
- Sales Returns are estimated to be \$140 (plus GST).

a. Reconstruct the following General Ledger Accounts:

- Accounts Receivable – to show the amount repaid by customers
- Inventory – to show the closing balance.

9 marks

b. The owner is considering reporting annually.

With reference to **one** qualitative characteristic, explain why Ready Office Supplies should continue to report monthly.

3 marks

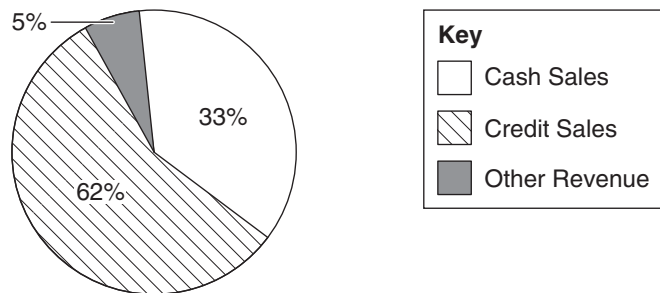
Question 9 (8 marks)

Roma Coffee Machines reports quarterly on 31 March, 30 June, 30 September and 31 December.

On 1 March 2022, the business invested \$60 000 in a 4-year term deposit at a fixed interest rate of 3% per annum. Interest revenue is directly credited to the business's bank account in equal instalments on the last day of February and August each year.

The accountant has provided you with the following information.

Revenue for the quarter ending 30 September 2022

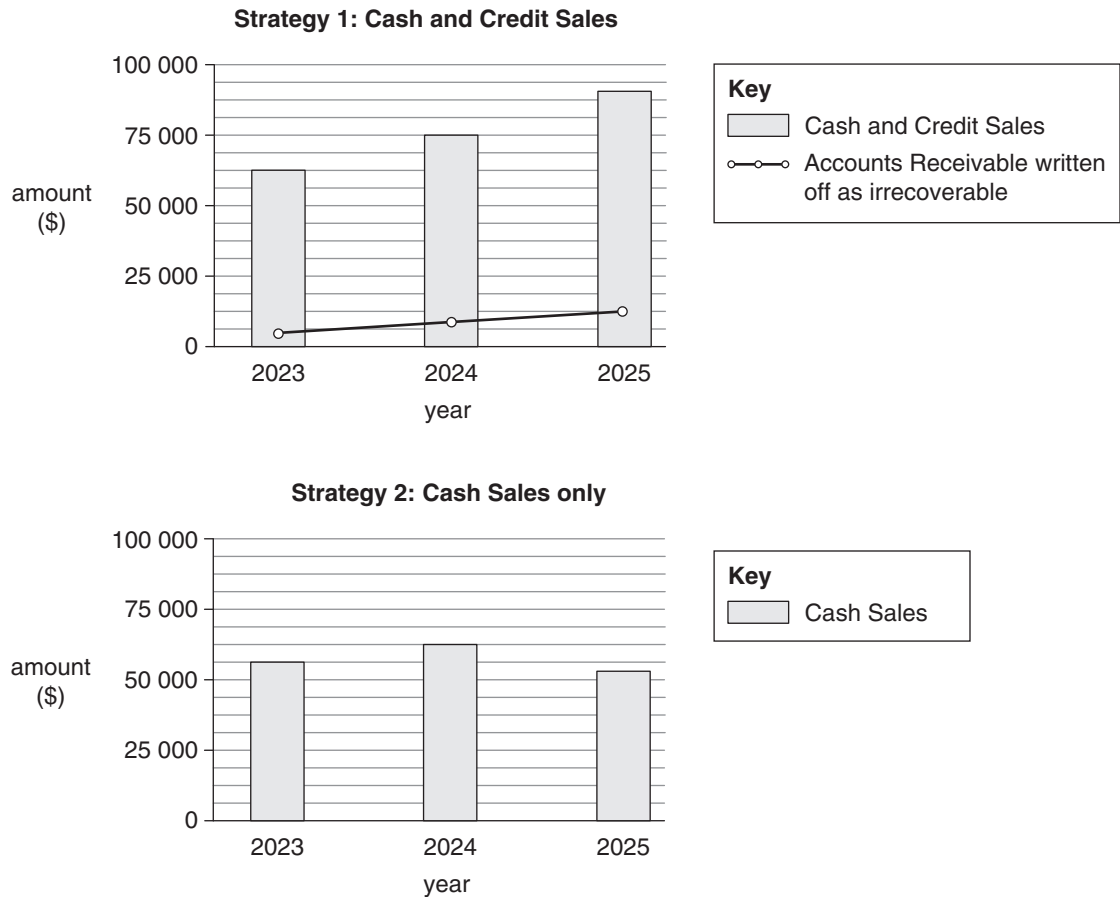
**Additional information**

- The total revenue earned during the quarter ending 30 September 2022 was \$15 000.
 - There were no Sales Returns during the quarter ending 30 September 2022.
 - All inventory is purchased on credit. Credit terms are 4/10, n/30.
 - Other Revenue includes discount revenue and interest revenue.
- a.** Complete the Accrued Interest Revenue General Ledger Account as at 30 September 2022. 3 marks
- b.** Prepare the General Journal entries required to close all revenue accounts to the Profit and Loss Summary Account on 30 September 2022. 3 marks
Narrations are **not** required.
- c.** Explain how Roma Coffee Machines upholds the qualitative characteristic of understandability by presenting the financial information as a pie chart. 2 marks

Question 10 (4 marks)

The owner of Inc. Paper Supplies is concerned about the amount of sales. Currently, the business sells all inventory on a cash basis.

The accountant has provided you with the following strategies. Strategy 1 forecasts the impact on the amount of sales if the business introduced credit sales. Strategy 2 forecasts the impact on the amount of sales if the business continues to sell on a cash basis only.



Recommend which strategy the owner of Inc. Paper Supplies should adopt. Discuss the impact of each strategy on the business.

END OF QUESTION BOOKLET

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Question 1 (15 marks)

a.

3 marks

Explanation

b.

3 marks

Explanation

c.

3 marks

Working space

Carrying value of vehicle as at 30 June 2022

d.

6 marks

Planting Greens

General Ledger

Disposal of Vehicle

Date	Cross-reference	Amount	Date	Cross-reference	Amount

Vehicle

Date	Cross-reference	Amount	Date	Cross-reference	Amount

Question 2 (18 marks)

a.

3 marks

Explanation

b.

6 marks

Working space

Question 3 (9 marks)

a.

2 marks

Explanation

b.

3 marks

Café Cups

Income Statement Variance Report (extract) for six months ending 30 June 2022

	Budgeted (\$)	Actual (\$)	Variance (\$)	Favourable/ unfavourable
Revenue				
Cash Sales	17 000		5 000	U
Credit Sales	24 000	21 000		
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Less Cost of Goods Sold				
Cost of Sales	20 275			
Customs Duty	1 000	700		
Gross Profit				
Less Inventory Loss	0		30	U
Less Inventory Write-Down	0		70	U
Adjusted Gross Profit				

c.

2 marks

Explanation

d.

2 marks

Discussion

b.

4 marks

Exclusive Bags**Balance Sheet (extract) for month ending 31 October 2022**

	\$	\$

c.

1 mark

Suggestion

Question 7 (6 marks)**a.**

3 marks

Sheet Music**General Ledger****Prepaid Insurance Expense**

Date 2022	Cross-reference	Amount	Date 2022	Cross-reference	Amount

b.

3 marks

Explanation

Question 8 (12 marks)

a.

9 marks

Ready Office Supplies

General Ledger

Accounts Receivable

Date 2022	Cross-reference	Amount	Date 2022	Cross-reference	Amount
1/11	Balance	1 320			

Inventory

Date 2022	Cross-reference	Amount	Date 2022	Cross-reference	Amount
1/11	Balance	1 780			

b.

3 marks

Qualitative characteristic
Explanation

Question 9 (8 marks)

a.

3 marks

Roma Coffee Machines**General Ledger****Accrued Interest Revenue**

Date 2022	Cross-reference	Amount	Date 2022	Cross-reference	Amount

b.

3 marks

Roma Coffee Machines**General Journal**

Date 2022	Details	Debit	Credit

c.

2 marks

Explanation

Question 10 (4 marks)

Recommendation
Discussion

END OF ANSWER BOOKLET